



**Cynulliad Cenedlaethol Cymru
The National Assembly for Wales**

**Y Pwyllgor Cynaliadwyedd
The Sustainability Committee**

**Dydd Mercher, 5 Mai 2010
Wednesday, 5 May 2010**

Cynnwys
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Cofnodir y trafodion hyn yn yr iaith y llefarwyd hwy ynndi yn y pwyllgor. Yn ogystal,
cynhwysir cyfieithiad Saesneg o gyfraniadau yn y Gymraeg.

These proceedings are reported in the language in which they were spoken in the committee.
In addition, an English translation of Welsh speeches is included.

Aelodau'r pwyllgor yn bresennol
Committee members in attendance

Lorraine Barrett	Llafur Labour
Angela Burns	Ceidwadwyr Cymreig Welsh Conservatives
Michael German	Democratiaid Rhyddfrydol Cymru (Cadeirydd y Pwyllgor) Welsh Liberal Democrats (Committee Chair)
Irene James	Llafur Labour
Rhodri Glyn Thomas	Plaid Cymru The Party of Wales
Joyce Watson	Llafur Labour
Brynle Williams	Ceidwadwyr Cymreig Welsh Conservatives
Leanne Wood	Plaid Cymru The Party of Wales

Eraill yn bresennol
Others in attendance

Gavin Adkins	Cadeirydd, Ffederasiwn y Diwydiant Paneli Pren Chairman, Wood Panel Industries Federation
Alastair Kerr	Cyfarwyddwr Cyffredinol, Ffederasiwn y Diwydiant Paneli Pren Director General, Wood Panel Industries Federation
Trefor Owen	Comisiwn Coedwigaeth Cymru Forestry Commission Wales
Rupert Pigot	Pennaeth Polisi, Cydffederasiwn y Diwydiannau Coedwigaeth Pren Head of Policy, Confederation of Forest Industries
Mike Pitcher	Comisiwn Coedwigaeth Cymru Forestry Commission Wales

Swyddogion Cynulliad Cenedlaethol Cymru yn bresennol
National Assembly for Wales officials in attendance

Dr Virginia Hawkins	Clerc Clerk
Meriel Singleton	Dirprwy Glerc Deputy Clerk

Dechreuodd y cyfarfod am 9.02 a.m.
The meeting began at 9.02 a.m.

Cyflwyniad, Ymddiheuriadau a Dirprwyon
Introduction, Apologies and Substitutions

[1] **Michael German:** Good morning and welcome to this meeting of the Sustainability Committee of the National Assembly for Wales.

[2] I have received no apologies for absence, apart from an apology from Karen Sinclair.

There are no substitutions.

[3] I have the usual housekeeping announcements to make. If a fire alarm should sound, please leave the room via the marked fire exits, and follow the instructions of the ushers and staff. There is no test forecast for today, so if an alarm sounds, it is real. Please switch off all electronic devices because they interfere with the broadcasting equipment. We operate through the media of English and Welsh; channel 1 on the headphones can be used for interpretation and channel 0 for sound reinforcement. Please do not touch any buttons because not only does it upset the operators, it is not necessary because they come on automatically.

9.03 a.m.

**Ymchwiliad i Fiomas yng Nghymru: Sesiwn Dystiolaeth—Comisiwn
Coedwigaeth Cymru**
Inquiry into Biomass in Wales: Evidence Session—Forestry Commission Wales

[4] **Michael German:** We are going to take evidence today on the biomass industry in Wales from the Forestry Commission Wales, the Confederation of Forest Industries and the Wood Panel Industries Federation. We have before us now the witnesses from the Forestry Commission, who are Mike Pitcher and Trefor Owen. I am grateful for the paper that you presented. Could you introduce yourselves with regard to the roles that you play within Forestry Commission Wales, and please make any introductory remarks if you wish to do so? If not, we will move straight to questions; it is entirely your choice.

[5] **Mr Owen:** Thank you, Chair. Good morning. I am Trefor Owen and I am the director of Forestry Commission Wales. This is my colleague Mike Pitcher. I would prefer to go straight to the questions.

[6] **Michael German:** Thank you for your paper. You have identified difficulties in the volume of production. Is that the only issue or are there other main barriers to biomass supply in Wales, particularly in regard to small-scale installations?

[7] **Mr Pitcher:** With regard to supporting small-scale installations, the Forestry Commission has been involved in the wood energy business scheme. Through managing that project, we have been able to identify the sorts of key issues that an emerging wood fuel supply chain would need to consider with regard to small-scale heating. So, the availability of raw material is one key issue, but the kinds of businesses entering into local supply chains also face issues typical of SMEs and new businesses. For example, a new business would need to invest in raw material stocks of wood, but also in capital equipment and facilities for storing and processing wood, so there are financial barriers as well that, in part, the wood energy business scheme is designed to help with, because it offers grants for such businesses. Another key issue that has been identified is knowledge and expertise in producing wood fuel to the required quality for small-scale heating schemes. Then there is access to market information and opportunities, because these small businesses have to make investments, and decisions about when to invest, and they need a reasonable amount of confidence that there is a market there for them. That is the range of issues that such businesses would face.

[8] **Michael German:** Thank you. That was very clear indeed. Just for my understanding, can you describe to me the difference, if there is any, in the raw materials that you would need for biomass, and who are the competitors—who else would be looking for that material?

[9] **Mr Pitcher:** Biomass is a broad term that covers a wide range of materials from both the agricultural and forestry sectors in the waste stream. We tend to focus on materials from

the forestry supply chain. The range of products that might be available for biomass would typically come from the point at which you harvest the tree—you cut the tree into various products such as logs, posts and fencing material. A certain proportion of the tree—that is, the tops and the branches—has not historically had a market in any of the existing industries, so that is one product available for biomass, and programmes are in place in Wales to start recovering some of that material. That kind of branchy material tends only to be suitable for the large power plants, because it is quite difficult to process in small-scale heating schemes.

[10] Another usable material is produced once the timber is harvested and goes into a saw mill, for example, when about 40 per cent of it comes out again as what is called co-product. That might be in the form of off-cuts, slab wood, saw dust or chips, which are the by-products of the saw-milling process. That material has traditionally been favoured for biomass, and depending on where you might be in Wales, it may or may not have an existing market. The pulp and paper industry has traditionally taken some of that material, as has the panel board industry, but sometimes, due to geographical constraints and transport distances, you may find in parts of Wales that that material has not had a market. That is a general description of the types of raw material that go into the biomass supply chain.

[11] **Michael German:** Is there any difference between the types of wood that you would use for biomass and the types that you would use for panelling, or for other market processes?

[12] **Mr Pitcher:** I am not aware of any.

[13] **Mr Owen:** As we have described in our paper, biomass is quite price sensitive. If the price is high enough, products that have traditionally gone into what we regard as the processing markets in Wales—such as logs, panel board or fencing—could easily go into the biomass market. Price is an important factor in determining where material actually goes, and the price is set by the market. As we have described in our paper, that is influenced by other factors as well.

[14] **Michael German:** I think that what I was asking was whether there is a hierarchy of timbers, so that one type would be the best for biomass usage. That is what I wanted to know.

[15] **Mr Pitcher:** From a biomass point of view, there is little difference regarding the type of wood.

9.10 a.m.

[16] **Michael German:** You also mentioned the lack of business support as a potential barrier, and you talked about expertise, and the wood energy business scheme. Is there sufficient support for those who want to establish small-scale biomass installations? If you would make changes, what recommendation would you make to us about the way you would look at this support for small-scale installations?

[17] **Mr Pitcher:** Looking ahead, with the renewable heat incentives, we anticipate an increased demand for wood heating schemes. The supply chain faces challenges in scaling up. We have the wood energy business scheme for capital grant support, so that piece of the jigsaw is reasonably well provided for, certainly for the next three years or so. We are in discussions with suppliers to understand their support needs. We are keen to work with Flexible Support for Business to ensure that the sort of small business support offered is tailored to the specific needs of these particular sorts of businesses. That is something that we would like to explore. It is a key area, and it is over and above simply offering capital grants.

[18] **Brynle Williams:** You said that it will raise the value of timber. Do you have a figure for what it is likely to rise to per tonne or cubic metre or however you sell it?

[19] **Mr Pitcher:** To give you some examples of prices at the moment and where they could go, looking at the sorts of contracts that have been agreed in the past few years for buying in wood chips from fuel suppliers, say for a large public sector building, we have seen prices negotiated at the equivalent of about £50 to £60 a tonne. That is for delivered, seasoned wood chips. At that price, these small businesses can make a return if they can buy the raw material at a low price. However, the raw material cost to the fuel suppliers is creeping up. As a result, they have to pass on the increased cost to customers. On top of that, they are experiencing rising fossil fuel costs—there is a certain amount of fossil fuel used in the processing and transport of this fuel. So, we are seeing prices of around £50, £60 or £70 a tonne, but there is an expectation that that will creep up and exceed £100 a tonne for delivered wood chips in the foreseeable future. Where it goes from there is not something that I am able to comment on; there may be a number of other factors that come into force, such as fossil fuel prices. However, those are the sorts of figures being discussed in the industry at the moment.

[20] **Irene James:** Good morning. In evidence provided to a committee in October 2008, the Forestry Commission stated that the only way one could envisage Wales being able to make a meaningful contribution to the supply market was if the area of land for forestry or energy crops was increased in some way. The land use climate change report makes a proposal for an additional 100,000 ha to be planted by 2030. Do you consider that this would be an appropriate amount of extra woodland that would make a meaningful contribution to the supply market?

[21] **Mr Owen:** Yes. The Minister for Rural Affairs announced a commitment to increasing the area of woodland in Wales by 100,000 ha over the next 20 years in Plenary in March. We certainly believe—in support of the evidence provided in our paper—that that will make a significant long-term contribution to increasing the supply of biomass, but also solid wood products over the foreseeable future.

[22] **Irene James:** Is that target sufficient, in your view?

[23] **Mr Owen:** It is a matter for the Government to set targets both in terms of energy and woodland creation. The Forestry Commission's role is to provide advice and, where it has a delivery role, to focus on translating that policy into delivery.

[24] **Irene James:** But, in your opinion, does work need to be done in the meantime?

[25] **Mr Owen:** I would prefer not to give my opinion.

[26] **Brynle Williams:** Where do you anticipate the 250,000 acres or 100,000 ha coming from, given the pressure on producing more food? Where will that timberland come from? Will we see more of the uplands planted or a change in the scale of hard wood to soft wood or the harvesting time for those?

[27] **Mr Owen:** The targets that were established by the Government in March were the result of an informed process including a range of stakeholders sitting around a table, including the farming community, recognising that creating more woodland is a viable and useful tool to offset greenhouse gas emissions. In terms of context, 100,000 ha of new woodland is equivalent to 4 per cent of the land area of Wales; it is important to get a sense of perspective about the target. Furthermore, a great deal of work was done by the group to provide that advice on squaring off the trade-offs on food production and other public benefits, such as biodiversity. The group identified, broadly, that there are significant areas of land in Wales that contribute very little to food, biodiversity or other benefits. Examples would be some areas of bracken land, which is increasing in terms of spread, some of the acid

grasslands in the uplands and reverting improved land—if I can use that term—which was improved in the 1970s and 1980s.

[28] On the second part of your question, the proposal is very much in line with the Government's Woodlands for Wales strategy, including on the expansion of mixed woodlands, such as conifers and broadleaf trees, with a focus on delivering production, in the true sense of the word, whether biomass or solid wood products, and other benefits. That is the lovely thing about woodlands; you can deliver valuable or commercial products as well as non-market products that people also value. The growth rates will vary depending on site conditions and species choice, but the intention is to target the right tree in the right place.

[29] **Rhodri Glyn Thomas:** Diolch am eich ateb, sy'n dangos lle'n union y byddai'r coedwigoedd hyn yn cael eu plannu. Fodd bynnag, eich problem ymarferol yw pa farchnad yn union yr ydych yn ei thargedu. Fy nealltwriaeth i oedd ei bod yn anodd iawn i berchnogion coedwigoedd yng Nghymru gystadlu yn y farchnad sy'n bodoli ar hyn o bryd. O gynyddu nifer y coed sydd ar gael, bydd y gystadleuaeth honno'n llawer mwy. A ydych yn hyderus bod marchnad ar gyfer y coedwigoedd hyn?

Rhodri Glyn Thomas: Thank you for your answer, which shows exactly where these woodlands would be planted. However, your practical problem is on what market you are targeting. My understanding was that it was very difficult for woodland owners in Wales to compete in the current market. If you increase the amount of timber available, that competition will be much greater. Are you confident that there is a market for these woodlands?

[30] **Mr Owen:** Yr wyf yn hyderus oherwydd ein bod yn deall yn eithaf da'r hyn sy'n digwydd y dyddiau hyn o ran y galw am bren. Mae galw aruthrol am bren, fel y nodwn yn ein tystiolaeth ysgrifenedig. Fodd bynnag, credaf hefyd ei bod yn bwysig dysgu gwers hanes. Sefydlwyd nifer o goedwigoedd Cymru dros 50 mlynedd yn ôl, pan oedd y diwydiant glo yn ei anterth. Yn bendant, cymerodd pobl benderfyniadau ffyddiog y byddai marchnad i'r coed.

Mr Owen: I am confident because we understand quite well what is happening these days in terms of the demand for timber. There is huge demand for timber, as we show in our written evidence. However, I also think that it is important that we learn a lesson from history. A number of woodlands in Wales were established over 50 years ago when the coal industry was in its heyday. Certainly, people took confident decisions that there would be a market for the timber.

9.20 a.m.

[31] Dros y blynyddoedd, mae'r farchnad honno wedi newid; mae'r diwydiant glô wedi pylu, ond mae defnydd a galw newydd am bren wedi dod, ac mae'r galw hwnnw'n cynyddu. Yn y blynyddoedd diwethaf, er enghraifft, yr ydym wedi gweld diwydiannau cynhyrchu papur yn datblygu yng ngogledd Cymru; byddwch yn clywed oddi wrth bobl nes ymlaen y prynhawn yma am y farchnad Ewropeaidd sydd wedi datblygu yng Nghymru i gynhyrchu bwrdd panelu ar gyfer ceginau ac yn y blaen. Mae'r tyfiant sy'n dod gyda biomas yn dangos datblygiad y diwydiant a'r cynnydd yn y galw. Nid oes problem yng Nghymru o ran gwerthu coed; mae marchnad i bopeth.

Over the years, that market has changed; the coal industry has declined, whereas wood has found new uses and demand, and that demand is increasing. In recent years, for example, we have seen the development of paper production industries in north Wales; later on this afternoon, you will be hearing from people about the European market that has developed in Wales for the production of panel board for kitchens and so forth. Also, the growth that comes with biomass shows the development of the industry and the growth in demand. There is no problem in Wales with selling timber; there is a market for everything.

[32] **Leanne Wood:** Can you confirm that there are no plans to extend woodland onto land that is currently used to grow food? Environmentalists are concerned that, worldwide, some crop production is being replaced by biofuels, so can you confirm that the 4 per cent of land earmarked for woodland expansion is not currently used for food production?

[33] **Mr Owen:** As I mentioned earlier, the intention is that woodland expansion would be targeted on land that is of limited value for food production—I cannot say that it has nil value, because you have to look at the economics of food production as well—and limited in the other benefits it can offer, such as biodiversity.

[34] **Irene James:** Concerns have been raised about the renewable energy sector competing for supplies of small logs, which threatens to divert supplies of timber from existing markets. Do you have any views on that?

[35] **Mr Pitcher:** The only observation that we would make for the purpose of today's discussion is that market forces are free to operate and that these matters are price sensitive. The market that ultimately secures the raw material is the one that has the greatest ability to pay for it. There is a likelihood that the energy sector would be able to bid for more of the raw material, depending on the level of support for that sector. In the absence of any new material coming into the market, there is a risk of some level of displacement.

[36] **Joyce Watson:** In your evidence, you say that bringing existing unmanaged privately-owned woodlands into management would realistically make an additional 90,000 tonnes of suitable, oven-dried wood fuel available for biomass. You also say that there is going to be, in your estimation, an overall shortfall in biomass produced in Wales to meet the growth in demand by 2020. Do you believe that the Welsh Government is doing enough to overcome supply issues? If not, what, in your opinion, needs to be done?

[37] **Mr Owen:** The Welsh Assembly Government and the Forestry Commission have a number of instruments to address the challenge that you outlined. Personally, I am delighted that the Glastir scheme will have an element to enable farms to invest in wood energy—or renewable energy, of which wood energy is a part—as that will provide farmers with an opportunity to add value to their woodlands and to act co-operatively with their neighbours to supply small-scale, or community-scale, clusters of schemes. That is an area that I know the Government in Wales is particularly interested in.

[38] The Forestry Commission's Better Woodlands for Wales grant scheme is also providing incentives and encouragement to bring woodlands to the market to enable biomass to be captured, and to bring those woodlands under active management, too, because we all know that actively managed woodlands are not only best for carbon management, they also provide all the other benefits that we want from woodlands, whether it is access or biodiversity. The most significant factor is what Mike touched on, namely that the increased demand for biomass is pushing up the market price for timber. Forest managers and owners are similar to farmers in that they are at the end of the supply chain. Increasing the price for the product at the end of the supply chain is not only good for the supply chain, it is good for the people who are managing land in Wales, because they are able to obtain more value from the sustainable management of that land.

[39] **Michael German:** Before we move on, Brynle wants to come in, and then Lorraine has a question.

[40] **Brynle Williams:** Mae'r hyn yr ydych newydd ei ddweud yn ddi-ddorol. Yr ydym eisoes yn sôn am brinder erbyn 2020, ac nid y gost ond y prinder hwnnw sydd yn **Brynle Williams:** I find what you have just said interesting. We are already talking about a shortage by 2020. It is not the cost, but that shortage that troubles me. To come back to

fy mhryderu. A dychwelyd at yr hyn yr ydym yn ceisio ei sefydlu, sef cynaliadwyedd, os nad oes digon o goed yng Nghymru, o ble y bydd yn dod a faint fydd yn ei gostio? Fel y dywedasoeh, mae gan y naddion a losgir mewn gorsafoedd pŵer bris isel o'u cymharu â phren a ddefnyddir ar gyfer dodrefn, paneli ac ati. A fedrwch chi gael digon o goed i'r gorsafoedd pŵer am bris digonol, neu a fydd yn rhaid ei fewnforio? Os yw'n cael ei fewnforio, tybiwn ein bod mewn sefyllfa negyddol sy'n canslo'r hyn yr ydym yn ceisio ei wneud. Fel ffermwr, derbynïaf yr hyn yr ydych yn ei ddweud. Pleser fyddai gallu gwneud arian allan o dyfu coed, ond ni all pob ffermwr wneud hynny, a beth bynnag, mae hynny yn y tymor hir, ac yr wyf yn sôn am y tymor byr a chynaliadwyedd, ac mae hynny yn fy mhryderu rhywfaint. A allwch chi ateb hynny?

[41] **Mr Owen:** Cyffyrddaf â'r cwestiwn. Nid yw sefydlu pwerdai mawr na'u cyflenwad pren yn fater i'r Comisiwn Coedwigaeth—yr ydym yn sôn yn ein tystiolaeth bod diddordeb ar draws Prydain mewn sefydlu pwerdai o'r math y sonioch amdanynt. Mae cymelliadau i hybu hynny hefyd oddi wrth y Llywodraeth yn ganolog. Os bydd y rhain i gyd yn cael eu datblygu, neu nifer fawr ohonynt, mae perygl na fydd digon o bren ym Mhrydain i'w cyflenwi. Byddai'n rhaid edrych ar fewnforio'r pren hwnnw. Nid oes neb yn gwybod ar hyn o bryd pa effaith a gaiff hynny ar y diwydiant yng Nghymru. Mae'n dychwelyd at y pris, fel yr ydym wedi sôn amdano, a phris y farchnad ar ddiwedd y dydd. Mae'r nwydd hwn yn symud ar draws y byd ac yn cael ei werthu ym marchnad y byd.

[42] **Lorraine Barrett:** To return to your evidence about bringing existing unmanaged, privately-owned woodlands under management, can you say a little about how that might be implemented? How would you physically or practically do that?

[43] **Mr Owen:** Privately-owned woodlands are the responsibility of their owners. All that we can do as a Government, or as an extension of the Government, is to try to buy some of the public benefits from those owners through grant aid, which I have already described. The other instruments are market instruments, which are linked to some of the incentives, such as the wood energy business scheme that the Forestry Commission manages. It is a 'pull' instrument, in that it supports the establishment of wood-heating schemes that draw supplies, preferably locally, into the market. We would like to see that pull being drawn from privately-owned woodlands in Wales with the owners being incentivised to bring those woodlands into management, because they would get a fair return on the products from those woodlands.

what we are trying to establish, namely sustainability, if there is not enough timber in Wales, where will it come from and what will it cost? As you said, the chips that fire power stations cost little compared to timber that is used to make furniture, panels and so on. Can you get enough timber to the power stations at an acceptable price, or will it have to be imported? If it is imported, I would have thought that we would find ourselves in a negative situation that cancels out what we are trying to do. As a farmer, I take on board what you are saying. It would be a pleasure to make money out of growing trees, but not every farmer can do that, and anyway, that is in the long term, and I am talking about the short term and the sustainability of such an approach, and that causes me a great deal of concern. Will you respond to that?

Mr Owen: I will touch on that question. Neither establishing large power stations nor meeting their timber supply is a matter for the Forestry Commission—we mentioned in our evidence that there is interest throughout Britain in establishing the sort of power stations that you mentioned. There are also incentives from Government centrally to promote that. If all of these, or a large number of them, are developed, the risk is that there will not be enough timber in Britain to supply them. We would have to consider importing the timber. No-one knows at present what impact that will have on the industry in Wales. It comes down to price, as we have discussed, and the market price, at the end of the day. This commodity moves across the world and is sold in the global market.

9.30 a.m.

[44] **Lorraine Barrett:** So, there is a marketing job to be done to identify them. Have you already identified where these private unmanaged woodlands are? Do we have a map of where they are? Will it then be a marketing exercise by the Forestry Commission, or are you acting on its behalf?

[45] **Mr Pitcher:** We know where the private woodlands are. We have not done a specific marketing exercise as such. At the moment, the arrangement for the Better Woodlands for Wales grant scheme is a voluntary mechanism so that woodland owners apply to enter the scheme, and they are given support through that in the form of access to a forestry planner who puts a management plan together for their woodland that identifies the various management objectives, including timber production. Through the implementation of that plan, they can draw down funding towards specific activities in the woodland. So, it is quite a tailored scheme to deliver specific woodland management objectives. That is available across the whole of Wales. The potential for supplying energy in the local heat market is also available across Wales—it does not necessarily apply to specific clusters. However, we are tending to see that clusters emerge around specific heating installations that have gone ahead, but we expect to see those clusters merging together over time until we reach a point where you can have confident access to fuel supply anywhere in Wales. We are not there yet—we are still building that supply infrastructure.

[46] **Michael German:** Thank you very much. We have reached the end of our questions. If there is anything else that you wish to add, please do so. If not, we will be publishing the record in draft, so you can check whether you have said what you thought you had said, but you cannot change the intention of what you said. Is there anything else that you wish to add?

[47] **Mr Owen:** No, thank you very much.

[48] **Michael German:** Thank you both for your evidence, which was very helpful—your written evidence was very informative. There will be an opportunity for you to review the record. If there is anything more that you wish to add, please do so by written evidence.

[49] We will now move on to look at the industry itself. While we are changing witnesses, I inform the committee that there will be a very brief private session at the end of this meeting to review the evidence that we have received and to check the evidence given in previous sessions.

9.33 a.m.

**Ymchwiliad i Fiomas yng Nghymru: Sesiwn dystiolaeth—Ffederasiwn y
Diwydiant Paneli Pren a Chydffederasiwn y Diwydiannau Coedwigaeth
Inquiry into Biomass in Wales: Evidence Session—Wood Panel Industries
Federation and Confederation of Forest Industries**

[50] **Michael German:** Good morning, gentlemen. I am going to be very cautious about pronouncing the names of two of you, so I firstly welcome Gavin Adkins, chair of the Wood Panel Industries Federation. This is where I will have trouble, Mr Kerr—is your name pronounced as ‘care’ or ‘car’?

[51] **Mr Kerr:** ‘Care’.

[52] **Michael German:** Thank you very much. Welcome, Alastair Kerr—I should have recognised from the first name how the pronunciation from your second name would work—

director general of the Wood Panel Industries Federation. I also welcome Rupert—is it pronounced as ‘pi-got’ or ‘pig-ot’?

[53] **Mr Pigot:** It is definitely pronounced as ‘pig-ot’.

[54] **Michael German:** Thank you very much. He is head of policy for the Confederation of Forest Industries. As you know, we ask questions of our witnesses. Thank you for the written evidence, which was comprehensive and very helpful to our short study on the biomass industry in Wales. If there is anything that you wish to amplify or say at the beginning by way of evidence, that would be very helpful. However, if you do not want to say anything, we will march straight on into questions—it is entirely up to you.

[55] **Mr Adkins:** I am Gavin Adkins, and I am also here as a director of Kronospan, a large wood panel manufacturer at Chirk in north Wales. We consume 1.25 million tonnes of softwood every year, which is greater than the harvest in Wales, so that gives you the context for Wales’s position as an importer of timber products. That gives you some idea of the ability of Welsh woodlands to have a meaningful impact on the biomass targets. We would also like to emphasise to the committee the fact that manufacturing with wood products is actually a carbon store, which has not come out as much as it should have so far.

[56] **Michael German:** Does anyone else wish to say anything? I see that they do not. We will go straight into questions. I will start. In respect of small-scale biomass installations, what are the main barriers to the biomass supply at the moment? Whoever wants to go first is welcome to answer that one. Just nod at me, and I will understand that you want to speak.

[57] **Mr Adkins:** From where I sit within the manufacturing industry, there is 100 per cent utilisation of the forestry products that are currently being harvested. Any new businesses adding new demand are in direct competition with existing manufacturers. Saw mill co-products, which were discussed earlier, actually have a home, and are utilised 100 per cent within the wood panel industry—to the extent that I am importing a large variety of my saw mill products from Scotland and England. I am taking from all of the large saw mills in Wales. Yes, there are a number of smaller saw mills at the furthest reaches of the Welsh nation from which we are not taking, but they are small-scale, and they will be able to feed into small-scale, localised heat biomass, which is the best use of that resource, and results in the fewest transport miles and the greatest benefit. What worries me is that there is a presumption that saw mill co-products in general do not have a home, and that is not correct.

[58] **Michael German:** Does anyone else want to comment on that? I wonder if you could give me an indication of what is happening to the price of the raw material?

[59] **Mr Adkins:** Over the last four years, since 2006, the price of the small-diameter roundwood that we have been taking down to 5cm has increased by over 50 per cent.

[60] **Michael German:** Is that primarily through increase in demand?

[61] **Mr Adkins:** It is through increase in demand specifically through new markets that are coming forward.

[62] **Rhodri Glyn Thomas:** As well as the increase in demand, has the competition from abroad changed because of the exchange rate? My understanding is that, until four or five years ago, a lot of the wood was being imported.

[63] **Mr Adkins:** The wood used by the wood panel industry in the UK is pretty much 100 per cent UK-sourced. Kronospan does not import any timber at all. One or two members of the wood panel industry may import at times of scarcity, but you are talking about probably

less than 5 per cent of their requirements. We are pretty much using domestically sourced timber.

[64] **Rhodri Glyn Thomas:** Has that always been the case?

[65] **Mr Adkins:** Yes, that has pretty much always been the case.

[66] **Mr Owen:** As an industry we take over 3.5 million tonnes of wood annually, and last year 150,000 tonnes were imported. It is not economic to import wood to make wood panels. Any wood that was imported was done at a loss, to cover issues of shortage.

[67] **Mr Adkins:** If I may expand on that, earlier this year, when we had terrible weather, and we were frozen out of the forests, we reached the point where we thought that we would run out of timber, and I investigated importing timber from the Baltic states. It was so cost-prohibitive; it was more than three times the cost of timber from the UK. It just would not have worked. So, from that perspective, importing timber to manufacture wood panels is not an economically viable option.

9.40 a.m.

[68] **Brynle Williams:** To expand on that point, you process 1.5 million tonnes of timber a year in Chirk, and perhaps this should not come under this point, but we have not touched on how many people you employ there.

[69] **Mr Adkins:** We employ about 560 people directly at Chirk.

[70] **Brynle Williams:** Concerns have been raised regarding the diversion of timber from existing markets. What do you believe needs to be done to avoid that?

[71] **Mr Adkins:** We are really concerned about the support given to large-scale electricity-only generation. We believe that there is a place in the market for small-scale, localised heat, and for combined heat and power generation, where there is a good fit, but we are concerned about the 50 MW-plus electricity-only generation plants that are getting large-scale support from the renewable obligation certificates. That is not allowing market forces to operate in relation to this scarce and finite resource; it is subsidising an industry in order to step into the market. A lot of their planning applications are predicated on importing biomass from abroad. Even though the Prenergy Power plant in Port Talbot talks about getting 90 per cent of its material from abroad, the 10 per cent that is to come from the UK equates to 300,000 tonnes. That is in an environment in which we have seen that Welsh forestry does not deliver the amount of timber that Welsh manufacturing sites require, and so we have to import it from England and Scotland. If a plant the size of the Prenergy Power says that it wants an extra 300,000 tonnes, and is being supported through the renewable obligation certificate, that will have one effect and one effect only: to displace traditional manufacturing industries in Wales.

[72] The perverse thing in this respect is that a subsidy and strategy that are designed to reduce net carbon emissions will have the opposite effect. In producing wood panels, you emit about 380 kg of carbon dioxide per tonne of timber processed, whereas in burning it you emit 1,900 kg of carbon dioxide per tonne of timber processed. So you would be replacing a low-carbon economy with one that emits a higher amount of carbon. Admittedly, over the life-cycle of a tree, the amount of carbon that is emitted is pretty much zero, because there is carbon sequestration throughout the life-cycle of that tree, which will then be emitted when you burn it. However, if you are producing a wood panel or any other timber product, a small amount of carbon is emitted and is then locked up for the life-cycle of the product. Life-cycle analysis has shown that the life of a wood panel product is about 40 years, which is another

rotation of forestry. In the time that you get to recover the energy from the wood products, you have grown another forest and sequestered more carbon. So, it is a perverse subsidy, which will have the opposite effect to the one that it is trying to achieve.

[73] **Michael German:** Did you want to carry on, Brynle?

[74] **Brynle Williams:** Yes, briefly. So, you are saying that smaller power stations that are nearer the market will save an awful lot of carbon, as opposed to the importation of products to serve plants around the docks and so on. You are also saying, once again, that the employment aspect comes into this quite dramatically, and that there will be unfair competition with the ROCs, which could devastate the whole industry and a lot of jobs.

[75] **Mr Pigot:** If there is displacement and businesses are driven out, that would leave just the big energy companies that have Government support, which will be able to take the domestic supply, and, because they will have driven out all the other businesses, they will be able to dictate the prices. So, what might appear initially to be quite good for growers will in the long term be a disincentive.

[76] **Mr Kerr:** Our greatest fear is that if you look at the market forces and the dominance of large-scale electricity generation, the signs are that UK-wide large-scale electricity generation will be predominantly fired by wood and that those plants will have a disproportionate impact on the wood market throughout the UK. The economics are such that, ultimately, you could get what we refer to as a ‘Tescoisation’ of the wood market. To refer to what Rupert has just said, with competition driven out, the prices will be driven down and, on one hand, that is good for consumers; however, in the meantime, not only the panel industry, but wood processing companies in Wales, Scotland and England will have been devastated by the consequential impact on employment.

[77] **Leanne Wood:** I am quite interested in this perverse incentive with the renewables obligation certificates. To clarify, did you say that small-scale combined heat and power projects are good, but the large energy-generating stations, bigger than 50 MW, are the ones that are going to cause a problem because of this subsidy?

[78] **Mr Adkins:** Absolutely. We always say that if you are going to use timber to generate electricity, you should make the most efficient use of that timber, which means recovering not only the electricity, but the heat. Electricity-generation only is a very inefficient way of recovering the energy from the timber. So, a presumption to CHP rather than electricity-only is a good thing, and that is currently recognised in the ROCs in terms of the banding of 1.5 ROCs for electricity-only and 2 ROCs for CHP. That is absolutely the right way to go. It is very difficult, once you get over 50 MW, to recover the heat in any useful form, because of the amount of heat you are talking about.

[79] So, we are really looking at biomass using the right technology, which is CHP, in the right environment, which is one that can utilise the heat as well as the electricity, and with the right material, which we say is either end-of-life timber or timber that has no other product route. The brash, the tops of the trees following harvesting, and the stumps have no other product route at the moment. So, let us recover those and use them in the biomass sector. We should also use waste timber that cannot be recycled. Some 70 per cent of chip board is made from recycled timber and timber that cannot be recovered and recycled should go into the biomass market. You do not lose the embedded energy in timber if you produce a product with it. It is still there, and you can still recover it at the end of its life. However, it will have done something useful and sequestered the carbon through that life.

[80] **Mr Pigot:** The final point to add on that, on the concept of scale, is that the proposed plans are to use more wood than Wales could produce. That does not seem to be a sensible

way to go about this.

[81] **Leanne Wood:** I have a good deal of sympathy with your argument, but the difficulty we have here is that the Assembly has power over power generation of less than 50 MW only. So, your concerns are outwith the responsibility of this committee and the Assembly.

[82] **Mr Adkins:** In that case, I would say that, in considering any projects under 50 MW, consider whether they are compliant with the waste incineration directive, whether they can take end-of-life timber and whether they are CHP.

[83] **Michael German:** Later in the inquiry, we will take evidence from the Intergovernmental Panel for Climate Change. I am sure that this is a matter that we will want to raise with it. Have you finished, Leanne?

[84] **Leanne Wood:** No. I was just going to say that that was a helpful suggestion, Mr Adkins. However, is there anything else that the Welsh Assembly Government can do to combat this perverse incentive of the renewables obligation certificates and to address your fears about the industry's future?

9.50 a.m.

[85] **Mr Adkins:** You could structure that slightly differently and ask instead what the Welsh Assembly Government can do to reduce the net emissions of carbon dioxide. The policy is to reduce net emissions, whether through biomass or whatever.

[86] **Leanne Wood:** We want to serve the industries here as well.

[87] **Mr Adkins:** Yes, absolutely. It is important that we really promote the use of timber in new build, as the French Government is doing by setting minimum targets for the amount of timber used in new buildings. In that way, there is a market incentive to increase the value of timber, which reduces the value of the subsidy coming through the renewables obligation certificate. At the moment, the value of the ROC subsidy far outstrips the value of timber and timber products. We would all like to see the value of timber increase, as long as we can pass that on to the customer, and we can do that only if there is a greater demand for timber. As we have seen, timber is a good means of locking in carbon, which will have the effect of reducing net emissions. If you then also have a greater demand for timber, it increases the price of timber and increases the returns to the growers, maintaining a margin for the manufacturers and reducing the impact of the subsidies coming through.

[88] **Leanne Wood:** So, everyone is a winner.

[89] **Mr Adkins:** That is right.

[90] **Mr Pigot:** If there were a way in which the Welsh Assembly Government could recognise the carbon locked up in solid wood, that would be a way forward.

[91] **Angela Burns:** I thank you both for your papers, which were interesting. I hope that I have understood them right. My initial question is for you, Rupert, because, in your paper, you state that

[92] 'There is scope for the further growth of local heat and CHP...in particular if public-private activities can stimulate further wood production.'

[93] However, from reading your papers, it seems that the opportunity to do that must be very small. For instance, I read that just the two plants at Port Talbot and Holyhead could use

up 6.5 million tonnes, and yet the whole of the UK will be producing only 10.8 million tonnes. There are other plants dotted around the UK, but I just wonder what scale of activity the public-private sector could possibly achieve to increase our 'woodiness', if you like, so that we can serve both the biomass industry and the wood panel industry. I cannot see how that is achievable.

[94] **Mr Pigot:** Much of it is to do with the growing of trees, and to have a presumption in favour of growing trees. The red tape that you have to go through and the environmental impact assessments that you have to prepare make it really hard to create forest and woodland. In comparison with agriculture, that makes it an unattractive use of land, which is the first point to bear in mind when trying to create the stock that will contribute towards the supply for these things. That is the initial hurdle to get over.

[95] **Angela Burns:** If I have understood these papers correctly—and I probably have not, so please do correct me—biomass plants cannot take dirty timber, only clean wood, which has not been used for anything else.

[96] **Mr Adkins:** What that is really saying is that the large-scale biomass plants that are currently being developed are not compliant with the waste incineration directive and so cannot take dirty wood. However, smaller-scale plants, such as the combined heat and power plant at Shotton paper mill, are compliant with the waste incineration directive and can take recovered timber from the waste stream.

[97] **Angela Burns:** I have another quick question, although you probably cannot answer this. Why are we building plants that are not compliant?

[98] **Mr Adkins:** That is a very good question. [*Laughter.*]

[99] **Michael German:** We were looking for a very good answer, if you have one.

[100] **Mr Adkins:** The answer is, quite simply, that the renewables obligation subsidy is such a cash cow that it makes sense for investors or entrepreneurs to build large-scale biomass plants to receive Government subsidies for importing timber and burning it.

[101] **Leanne Wood:** That is mad.

[102] **Mr Adkins:** Allow me just to put that into context. The John Clegg Consulting study into the future demand for timber in the UK shows that imports will need to rise by between 25 million and 30 million tonnes over the next 10 years if we are to realise all the proposals. That is more than the global trade in wood products at the moment.

[103] **Mr Pigot:** You have to look at that in the context of the entire world, because more countries will be looking at this as a resource.

[104] **Angela Burns:** I would like a quick education on this point, please. If we are looking at a tonne of clean wood going into a large-scale incinerator, how many acres of trees or what number of trees is that, roughly? You are going to use the tops and the bottoms of trees, but you would not necessarily use the rest.

[105] **Mr Adkins:** That is a misconception. If you are talking about a biomass industry that could potentially use 30 million tonnes of timber, all timber is fair game. A tonne of virgin timber will give you about 1 MWh of electricity, for which you will get one and a half ROCs for electricity-only generation. That means that you will get a subsidy of one and a half times the ROC value, which was £54 last year. So, you are talking about £60 to £70-worth of subsidy. That outstrips not only what the low-grade wood panel industry is paying, but also

what many sawmillers are paying for timber, and that is before you have sold your product. So, the whole tree becomes fair game. For example, Scottish and Southern Energy has bought forestry in Argyle, and it has a fighting fund to buy more forestry. This is part of the Tescoisation that Alastair talked about—the vertical integration of the energy stream. That is a real fear, not only for the wood panel industry and the sawmilling industry, but also for the growers that we represent, but they see that in the short-term, a small-scale biomass industry based on local use will increase the value of their timber. However, if you start talking about an additional 30 million tonnes, they get bowled out of the market and there is no real future for them. You must also remember that it is just one fuel with which the energy companies can produce electricity. They will play tunes with fossil fuel, wind, hydro and biomass to find the best fit for their profitability. If biomass is not the case, they will just switch it off. We see that now with Lockerbie. We see that with the fossil fuel plants—the coal plants. With the amount of time in which the coal plants can combust being limited, because of the large combustion plant directive, the energy company will only turn it on when the price is right and demand at such a level that they can maximise their profit. The same will happen with biomass if we allow energy companies to develop unchecked.

[106] **Angela Burns:** Can I pose one more hypothetical question, because I am trying to get an understanding of how many acres of Wales would be subsumed if we were to try to grow the wood for these big biomass things? If the Tesco version of woods came to Wales, given our topography and valleys, which are dedicated at the moment to agriculture, and given our urbanisation, is there much suitable space in the rest of Wales for tree-growing, because you cannot necessarily harvest them at that level? Are we really under threat of losing our whole landscape and the mix of our countryside?

[107] **Mr Adkins:** Given the capacity that is talked about in Wales with the two very large-scale plants in Anglesey and Port Talbot, no, you cannot plant enough trees in Wales to manage that. That is the simple answer. Drawing from my experience of our forest in Scotland, the area is different and the Forestry Commission will be best placed to tell you that. We normally work on a region between 350 tonnes and 400 tonnes per hectare of forestry.

[108] **Michael German:** Rhodri Glyn has the last set of questions, and he may want to start where we left off.

[109] **Rhodri Glyn Thomas:** I ddychwelyd at yr hyn a ddywedodd Gavin Adkins ynglŷn â'r farchnad a phwerdai biomas, dywedasoeh pe bai'r diwydiant yn penderfynu nad dyna'r ffordd yr oedd am ei dilyn i gynhyrchu, gallai benderfynu peidio â datblygu'r maes hwnnw. Clywsom dystiolaeth yn gynharach gan Trefor Owen o'r Comisiwn Coedwigaeth fod nifer o'r problemau a ddatblygodd gyda choedwigaeth a sicrhau bod marchnad yn bodoli ar gyfer coed wedi digwydd oherwydd bod rhagdybiaeth 50 mlynedd yn ôl y byddai coedwigoedd Cymru'n parhau i ddarparu coed ar gyfer y diwydiant glo. A oes perygl y byddwn yn canfod mewn hanner can mlynedd, wedi inni fod yn cynhyrchu coed ar gyfer y diwydiant biomas, nad y diwydiant hwnnw yw'r dewis o ran cynhyrchu ynni?

Rhodri Glyn Thomas: Going back to what Gavin Adkins mentioned about the market and biomass power stations, you said that if the industry decided that it did not want to go down that route of production, it could decide not to develop that area. We heard evidence earlier from Trefor Owen of the Forestry Commission that many of the problems that developed with forestry and in ensuring that a market existed for timber occurred because of a presumption 50 years ago that the forests of Wales would continue to produce timber for the coal industry. Is there a danger that, in 50 years' time, having produced timber for the biomass industry, we will find that that industry is not the preferred means of energy production?

10.00 a.m.

[110] **Mr Adkins:** There is the potential that we would be producing timber for energy production. Growing forests is the right thing to do, because they act as a carbon sink, but if the biomass industry goes on unchecked, there will not be a manufacturing industry to buy the product from the forest. There is a possibility that we would be growing timber just for the biomass industry, and I think that that would be the wrong thing to do. If the climate scientists are to be believed—and there is no reason not to believe them—we have a very short time in which to reduce carbon emissions. If you burn timber, despite the fact that it is a carbon neutral material over the lifecycle of the tree, it will emit carbon that has taken 40 years to lock up in the tree. If you manufacture a wood panel with that timber, you will be locking the carbon up for a further 40 years, so there will be more of an impact in mitigating climate change by locking the carbon up in products rather than by burning the timber. I am not disputing that it is carbon neutral to burn the timber, but it is carbon positive to manufacture with it.

[111] **Rhodri Glyn Thomas:** Yr wyf yn troi at Rupert Pigot yn awr. Dros y blynyddoedd diwethaf, yr ydym wedi gweld sefyllfaoedd ledled Cymru—ac mae'n siŵr ar draws y Deyrnas Unedig—lle mae pobl yn ceisio gwerthu eu coedwigoedd preifat, ac nid yw'n ymddangos bod gan neb awydd mawr i'w prynu. Mae'r disgrifiad gawsom y bore yma yn awgrymu bod coedwigoedd yn gallu bod yn ddiwydiant llewyrchus iawn, ond nid dyma'r hyn yr ydym yn ei weld o ran awydd pobl i redeg coedwigoedd. A yw hynny oherwydd y trafferthion sydd i'w cael yn eu rheoli, o ran biwrocraiaeth ac yn y blaen? Beth y gallwn ei wneud i greu system sy'n ei wneud yn symlach ac yn fwy deniadol i bobl brynu coedwigoedd a chynhyrchu coed?

Rhodri Glyn Thomas: I now turn to Rupert Pigot. Over the last few years, we have seen situations throughout Wales—and doubtless across the United Kingdom—where people are trying to sell their private forests, but there does not seem to be much enthusiasm for them among buyers. The description that we have had this morning suggests that forestry has the potential to be a very lucrative industry, but we do not see that reflected in people's desire to manage forests. Is this because of the difficulties in managing forests, due to bureaucracy and so on? What can we do to create a system that makes buying forests and producing timber simpler and more attractive to people?

[112] **Mr Pigot:** The price of forests has been increasing over the last 8 years; it is only since 2009 that it has stopped increasing. There has, therefore, been an improvement in those prices. The problem with new planting is UK-wide. The amount of new planting has been declining for the last 30 years, and the amount of red tape and bureaucracy involved has increased, and that has made it very hard to make any money out of forestry. A simplification of the process and a presumption in favour of planting would be a step forward.

[113] **Mr Adkins:** You have to get into the minds of the private owners and think about the driving force behind holding a forest. There are a number of different reasons for doing so; my company holds 10,000 ha of forest for production, but one sees investment funds coming in, which is not necessarily about production but about the growth rate of the trees and the growth in their capital value. People also hold forests for the purposes of inheritance tax, which is not necessarily about production but about tax planning. Earlier on, I heard about bringing unmanaged woodlands into productivity. That is a great idea, and one that we should be pursuing. However, we have to think about what drives each person to hold timber, as it may not be down to production or realising the value of the timber when it is harvested. They may be looking at a resource that is going up in value, because the unit cost of timber is increasing. As it is left to grow—wood grows on wood—they get a greater volume for greater value. Up to a certain point, people hold timber as a capital asset rather than as revenue.

[114] **Michael German:** It is a wooden bank account, then.

[115] **Rhodri Glyn Thomas:** The only question left concerns the paper that you produced, which talks about the amount of usable wood going into landfill and that only 40 per cent of that is being recycled at the moment. What can the Welsh Assembly Government do to make better use of this wood? You spoke about the possibility of using every piece of wood that is produced in Wales in some way. Is there something specific that the Welsh Assembly Government could do in this area?

[116] **Mr Adkins:** It could support a ban on sending wood to landfill.

[117] **Rhodri Glyn Thomas:** That would certainly exercise minds in finding some other use for it.

[118] **Mr Adkins:** It could support a ban on landfill and ensure that all the projects under 50 MW are complying with the waste incineration directive. That way, there will be a fuel to supply an efficient plant.

[119] **Michael German:** I am grateful for your written evidence and for your supplementary evidence, as it has been very informative. We will deliberate on this in a short while and I expect that a report will come shortly from the committee. In the meantime, when the Record of what you have said comes out in draft form, you can look at it and decide whether it accurately has recorded what you said, but you cannot alter what you have said. I thank you all very much for coming this morning and for the time that you have given us. It has been extremely informative and I am sure that the committee is very grateful.

[120] Before we move into private session, I would like to say that the next meeting of the Sustainability Committee will be on 12 May, when we will look at the environment strategy.

10.06 a.m.

Cynnig Trefniadol Procedural Motion

[121] **Michael German:** I move that

the committee resolves to exclude the public from the remainder of the meeting in accordance with Standing Order No. 10.37(vi).

[122] I see that the committee is in agreement.

*Daeth rhan gyhoeddus y cyfarfod i ben am 10.06 a.m.
The public part of the meeting ended at 10.06 a.m.*